



**Director of  
Central  
Intelligence**

**Top Secret**



*OCO/Cable Ed*

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## **National Intelligence Daily (Cable)**

**23 July 1982**

**Top Secret**

*CPAS NIDC 82-171C*

*23 July 1982*

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ISRAEL-LEBANON: Israeli Retaliation

(Information as of 2300 EDT)

*The Israelis announced a unilateral cease-fire following their attacks yesterday on West Beirut and on Syrian and Palestinian positions in the Bekaa Valley.* [ ]

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Yesterday Israeli jets bombed West Beirut and Israeli forces attacked Syrian and Palestinian positions along the entire cease-fire line in eastern Lebanon in retaliation for the killing on Wednesday of five Israeli soldiers by Palestinian guerrillas. An Israeli official called the attacks "a limited strike to show the PLO and Syria that the cease-fire is not one-sided." [ ]

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Comment: Israel has repeatedly warned Syria it will not tolerate guerrilla activity emanating from behind Syrian lines. Although the Israelis probably did not intend to drive the Syrians out of the Bekaa Valley, they were prepared to escalate the fighting if the Syrians retaliated in force. Syrian reaction evidently was limited to artillery and tank fire. [ ]

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Israeli spokesmen claim Israel wants negotiations on the PLO issue to continue and is willing to observe a permanent cease-fire if the guerrilla activity ends. Israeli forces around Beirut and in the Bekaa Valley, however, remain on alert. [ ]

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Sharon on Limited Military Options

Israeli Defense Minister Sharon declared on Wednesday that the Palestinian camps in the Beirut area are not an integral part of the city. [ ]

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Comment: Sharon's distinction between the camps and Beirut proper suggests the area south of the formal city limits may be the target of any renewed Israeli offensive. Israel this week has been reinforcing its positions around Beirut, probably in anticipation that the cabinet may eventually order an attack against at least the southern half of West Beirut. [ ]

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IRAN-IRAQ: Iranian Attack Fails

(Information as of 2300 EDT)

*//Iran failed on Wednesday in its third major attempt to break through Iraqi lines northeast of Al Basrah.//*

*//The Iraqis counterattacked and claimed to have killed 2,500 Iranian soldiers. the Iraqis have reestablished their original frontline.//*

Tehran's forces show no sign of giving up, however, and they probably will continue to try to make a breakthrough.//

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### Regional Reactions

Kuwait has inquired about US deliveries of arms, including TOW antitank guided missiles. [REDACTED]

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Comment: Like the other small and vulnerable Arab states in the Persian Gulf region, Kuwait is keeping a low profile. It does not want to antagonize either Iraq or Iran. Kuwait wants to avoid appearing to line up with the West against Iran [REDACTED]

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WESTERN EUROPE - USSR: Pipeline Developments

*//The French Government's announcement yesterday ordering French companies to fulfill all existing contracts with the USSR is the first direct attempt by the West Europeans to circumvent US pipeline sanctions.//*

Comment: //The French move--which forces Alsthom-Atlantique to fulfill its contract of November 1981 to supply 40 sets of turbine rotors manufactured under license from General Electric--may encourage other West European governments to defy the sanctions. The West Europeans may have, in fact, coordinated their efforts to some degree already.//

//The decision by France marks a major breakthrough for the USSR in its efforts to circumvent the US sanctions. Delivery of the 40 Alsthom rotors, which probably were intended originally as spares for the 120 rotors to be built by GE, could enable the three West European turbine builders to meet their initial delivery obligations to the Soviets.//

//In addition to the 40 rotors in Alsthom's existing contract, a total of some 20 GE-produced rotors are held by Nuovo Pignone of Italy, John Brown of the UK, and AEG-Kanis of West Germany. These rotors were shipped by GE before the imposition of sanctions last December. Their delivery was to have begun this month, but the Soviets gave the West Europeans until early August to decide whether or not to defy US sanctions.//

//If the West Europeans now decide to build and ship the turbines, Moscow would have half of the 120 25-megawatt turbines planned for the pipeline. Installing just these turbines would allow operation of the pipeline at around 90 percent of capacity. Deliveries then could total about 28 billion cubic meters annually; current contracts total only 22 billion cubic meters annually.//

//To acquire the remaining 60 or so turbines planned for the pipeline, the Soviets could contract to purchase the needed rotors from Alsthom--the only company holding a license to produce the GE-designed rotors. They also could produce turbines of their own design, possibly with manufacturing assistance from West European firms.//

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USSR: Status of Grain Crop

*The grain crop in the USSR this year probably will amount to only about 165 million tons, and it could be considerably lower.*

Drought and hot, dry winds in mid-June in the main spring wheat belt substantially reduced potential yields of both winter and spring grains. A more intensive drought in the first two weeks of July hit when grain kernels were forming.

Comment: Another bout of hot, dry weather in the spring grain areas or a prolonged harvest in the European USSR--which could subject late-sown spring grain to early, killing frosts--could result in a crop far smaller than the unofficially reported 158-million-ton harvest in 1981.

Moscow's long-range plans to become less dependent on grain imports from the West have been thwarted again. Regardless of the actual harvest, the USSR this year may import as much as 50 million tons of grain--somewhat above the record level in 1981 of 46 million tons. With bumper harvests and record grain stocks in key exporting countries, the Soviets will have little difficulty lining up these imports.

The USSR is likely to obtain some grain from the US. If Moscow decides to avoid the US market, however, nearly the entire amount probably could be obtained from other major exporters--especially Canada, Argentina, Australia, and the EC countries--if it is willing to pay a premium to obtain grain scheduled for other countries.

A fourth consecutive poor grain crop and the resulting lackluster overall agricultural performance jeopardize President Brezhnev's promise last May of an improved food supply in 1982. Even with heavy grain imports, a 165-million-ton crop would leave the USSR far short of the quantities of grain required to meet domestic needs.

The crucial shortage of livestock feed could be eased by a reduction of grain directed to food and industrial uses. Nonetheless, some distress slaughter, primarily of hogs, would be necessary to alleviate the shortage. Even with this additional meat available, meat production this year would fall below the level in 1981 of 15.2 million tons.

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CHINA - MIDDLE EAST: More Active Diplomacy

*China is increasing its diplomatic activity in the Middle East and attempting to heighten regional concern that the USSR will seek to take advantage of the war between Iran and Iraq.* [redacted]

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The Chinese are trying to improve relations with both Iran and Iraq. Economic and trade delegations from the two countries are now in Beijing, and the Chinese are warning about the Soviet threat to the region. [redacted]

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In addition, the Chinese are taking a more flexible approach to Arab ties with Moscow in an effort to improve relations. [redacted]

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The military setback to the PLO, which is one of China's few avenues for directly backing the Arab cause, has accelerated Beijing's effort to broaden its ties in the Middle East. The Chinese are continuing to publicize their backing for the Palestinians in Lebanon. [redacted]

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## USSR-POLAND: Soviet Reaction to Recent Events

The Soviets have not commented publicly on the demotion last week of hardline Politburo member Olszowski, the postponement of the papal visit, or Premier Jaruzelski's easing of some martial law restrictions. In their formal message yesterday on Poland's National Day, President Brezhnev and Premier Tikhonov expressed approval and support for efforts to revitalize the Polish party. At the same time, however, they stopped short of expressing confidence that current measures to cope with political and economic difficulties would be adequate.

Comment: The sparseness of Soviet commentary may stem from mixed feelings about recent events and a desire to await their impact before passing judgment. The Soviets are likely to be uneasy about the downgrading of Olszowski, who is particularly close to the Kremlin ideologically, but they may hope that it at least will reduce strife in the party. The limited concessions Jaruzelski announced on Wednesday probably allayed Soviet concerns that he would move too far toward conciliation. Although the Soviets may have reservations about the large-scale release of detainees, they appear confident of the regime's ability and determination to maintain order.

## EAST GERMANY: Grain Import Ban

The East German regime last week banned the import of feedgrains for the rest of the year.

Party chief Honecker in recent months has called publicly for improved agricultural performance to reduce the need for grain imports, which have averaged about 3 million tons annually during the past few years.

Comment: The ban almost certainly reflects growing East German concern over the lack of Western credits and East Berlin's drive to reduce its current account deficit. The ban will substantially reduce US agricultural sales to East Germany, valued at over \$300 million in 1981. The regime apparently is prepared to accept an increase in popular dissatisfaction. It will resist instituting meat rationing--a tacit admission of economic failure--and blame Western economic sanctions and hoof-and-mouth disease for the meat shortages.

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JAPAN: Suzuki's Political Plans

Prime Minister Suzuki may accelerate his reelection timetable [redacted] His term as president of the ruling Liberal Democratic Party--and hence as Prime Minister--expires in late November. A party convention is scheduled for that time, but if less than four candidates have entered the race by 16 October Suzuki can call an ad hoc meeting to elect the party president later that month. [redacted] Suzuki is confident he will not face many challengers. [redacted]

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Comment: //Suzuki's major rivals, including former Prime Minister Fukuda, may openly challenge him once the Diet session ends next month. An early election would enable Suzuki to recall the Diet in November to tackle economic issues. If held before the convention, such a session could raise questions about his performance as an economic manager. [redacted]

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